

California Energy Commission's Quarterly Report Regarding the Renewables Funding Program

(October 1 — December 31, 1999)

The California Energy Commission is pleased to submit its Quarterly Report on the Renewables Funding Program covering the period October 1 through December 31, 1999¹. The report describes the Commission's implementation activities, including information regarding awards submitted to the State Controller² for payment, the cumulative commitment of claims by account, the relative demand for funds by account, a forecast of future awards, and related matters.

Background

Assembly Bill 1890 ([AB 1890] Chp. 854, Stats. 96) required California's three major investor-owned utilities to collect **\$540 million** from their ratepayers over a four-year period (1998-2002) to help support renewable electricity-generation technologies and the development of a renewable market. As AB 1890 required, the Commission submitted its ***Policy Report on AB 1890 Renewables Funding (Policy Report)*** to the Legislature in March 1997, with recommendations for allocating and distributing these funds. Senate Bill 90 ([SB 90] Chp. 905, Stats. 97) subsequently established a Renewable Resources Trust Fund, placed the \$540 million into the fund, and directed the Commission on how to distribute the fund through four distinct accounts consistent with the ***Policy Report***. These accounts and the total funds allocated to each are:

- ¥ Existing Renewable Resources Account (**\$243 million**)
- ¥ New Renewable Resources Account (**\$162 million**)
- ¥ Emerging Renewable Resources Account (**\$54 million**)
- ¥ Customer-Side Renewable Resources Purchases Account:
 - _ Customer Credit Subaccount (**\$75.6 million**)
 - _ Consumer Education Subaccount (**\$5.4 million**)

In January 1998, consistent with SB 90, the Commission adopted overall funding guidelines, eligibility requirements, yearly allocations, and account-specific guidelines to assist participants in applying for funding from the various accounts within the Renewables Funding Program.

Renewables Funding Program Implementation

The mechanisms for distributing funds vary by account, as do the implementation activities for each account. Table I highlights the Commission's implementation

¹ Public Utilities Code (PUC), Article 5, Section 445(g) requires the Commission to report to the Legislature quarterly on fiscal and programmatic aspects of the program.

² As a procedural matter, the Commission submits awards directly to the State Controller for payment, rather than through the Treasurer. This procedure significantly streamlines the award-payment process for all participants.

activities for the fourth quarter of 1999 and describes the expected funding and implementation activities for the first quarter of 2000.

Table I
Renewables Funding Program:
Fourth Quarter 1999 Program Implementation

Account, Program-Implementation and Funding Activities: October — December 1999	Expected Funding and Implementation Activities: January — March 2000
Existing Resources Account	
<ul style="list-style-type: none"> A total of 352 facilities are registered as renewable suppliers and 245 facilities are eligible for funding. Tier 1 (biomass, solar/thermal and waste tire) paid 0.8 — 1.5 cents/kWh on 932 million kWh for August, September and October. Tier 2 (wind) paid from 0.0 — 0.82 cents/kWh on 600 million kWh for August, September and October. Tier 3 (geothermal, digester and landfill gas, small hydro and municipal solid waste) paid 0.0 — 0.72 cents/kWh on 2.225 billion kWh for August, September and October. Payments totaling \$16,576,762 made this quarter. Rollover of \$12.8 million as of December 31 for Tiers 1, 2 and 3. 	<ul style="list-style-type: none"> Payments for November 1999, December 1999 and January 2000 generation are scheduled for January 31, February 29 and March 31, 2000, respectively. Estimated first quarter 2000 payments (November, December, January): \$9.3 million.
New Resources Account	
<ul style="list-style-type: none"> Nine projects are on-line and producing energy. To date, payments totaling \$1.073 million have been made to seven on-line facilities for new renewable energy generation. Payments totaling \$657,886 made this quarter. Two projects requested cancellation of their funding awards, totaling about \$4.4 million. 	<ul style="list-style-type: none"> Payments are expected to begin to an on-line wind project in the Palm Springs area and a landfill gas project in Sunnyvale. Construction of projects will continue, as will payments to on-line projects. The Commission will evaluate how to reallocate funds made available by the cancelled projects.
Emerging Resources Account	
<ul style="list-style-type: none"> Funds encumbered for Buydown Program reservation requests currently total \$3.9 million. Payments for installed systems total \$3.5 million as of December 31. Received 161 new reservation requests this quarter. 	<ul style="list-style-type: none"> Draft market research report on emerging technologies to be completed in January. Additional new reservation requests are expected. Monitoring program jointly funded by Commission and DOE will continue.
Customer Resources Account	
Customer Credit Subaccount	
<ul style="list-style-type: none"> Twenty-one active marketers are registered as renewable providers, offering a total of 35 products containing renewable energy. One new provider registered this quarter. The credit level was lowered to 1.25 cents/kWh. To date, payments totaling \$19,979,529 have been made to providers. 	<ul style="list-style-type: none"> More payments will be made as providers continue to submit invoices for funding. The market will continue to be dynamic, as renewable providers and products are added and dropped. In March, the Commission will re-evaluate the lowered credit level.
Consumer Education Subaccount	
<ul style="list-style-type: none"> Implementation of <i>Renewable Energy Consumer Education (RECE) Marketing Plan</i> continues. Community outreach and consumer education activities continued throughout California, targeting Oakland. 	<ul style="list-style-type: none"> Community outreach and consumer education activities will expand to targeted communities throughout California. Market research will be conducted on emerging renewable energy technologies.

Renewable Resources Trust Fund Expenditures

Through December 31, 1999, the Renewable Resources Trust Fund *received* \$214.1 million for all of the accounts. As of the fourth quarter of 1999, the Commission *awarded* \$144.2 million, reflecting payments (disbursements) from all of the accounts. Eligible applicants *reserved* \$55 million, reflecting fund reservations (encumbrances) from the New Resources Account, the Emerging Resources Account, and the Consumer Education Subaccount. Table II shows a financial summary of the Renewable Resources Trust Fund as of the fourth quarter 1999.

Table II
Renewable Resources Trust Fund
Current Funding and Expenditures for the Quarter Ending December 31, 1999
(\$ millions)

	Existing Resources Account	New Resources Account ³	Emerging Resources Account	Customer Resources Account		Program Total ⁴
				Customer Credit	Consumer Education	
Available Funds	124.230	52.860	16.973	18.238	1.772	214.080
Disbursements	(119.272)	(1.073)	(3.459)	(19.980)	(.373)	(144.157)
Current Balance	4.958	50.045 ⁵	13.514	0.000 ⁵	1.399	69.923
Encumbrances	0.000	(50.045)	(3.892) ⁶	0.000	(1.127)	(55.064)
Unexpended Funds	4.958	0.000	9.622	0.000	0.272	14.859

The three investor-owned utilities continue deposits into the Fund with payments current to December 31, 1999. The program design has a built-in, two-month processing period for payments to eligible energy in several accounts.

As Table II reflects, the State Controller made payments from the Existing Resources Account for electricity produced through October 1999, from the Customer Credit Subaccount to providers of renewable energy, and paid claims to systems through the Buydown Program in the Emerging Resources Account. The Controller also made payments from the New Resources Account to seven of the nine projects that are now on-line and generating renewable energy, and from the Consumer Education Subaccount for implementation activities of the *Renewable Energy Consumer Education (RECE) Marketing Plan*. The Commission encumbered funds from the Emerging Resources Account for systems participating in the Buydown Program, the Consumer Education Subaccount for continued *Marketing Plan* activities, and from

³ The Commission conditionally allocated \$162 million at its June 5, 1998 auction for future incentive payments. Funds are encumbered for projects as they become available.

⁴ Program totals include \$7,087 in voluntary contributions.

⁵ A total of \$1.74 million was transferred from the New Account to the Customer Credit Subaccount.

⁶ Reservation requests granted (but not yet paid) since the March 20, 1998 start-up of the Buydown Program.

the New Resources Account for its 53 continuing projects. Funding to these projects will eventually total \$162 million; funds from the New Resources Account will continue to be reserved as they become available.

Existing Resources Account

In the third quarter of 1999, an order by the Federal Energy Regulatory Commission denied Qualifying Facility recertification to six of the 11 Geysers geothermal facilities registered with the Existing Account. As a consequence of that order, the six facilities, which represent 393 megawatts (MW) of capacity, became ineligible for funding from the Existing Account. Although the Controller had already made payments totaling \$307,403 to three of the six facilities, Calpine Corporation, owner of the facilities, issued a reimbursement check in that amount in the fourth quarter of 1999. The Commission redistributed the funds to facilities in Tier 3 that had received lowered payments due to the payments made to the three ineligible Geysers facilities.

The Commission is considering a change to the program guidelines that would allow facilities that are not selling to a utility to have their incentive payments from the Existing Account based on the Power Exchange day-ahead market-clearing price instead of utilities' monthly average short-run avoided costs. The Guidebook for the Existing Account states that this change will eventually come into effect pending a decision by the California Public Utilities Commission (CPUC); however, the CPUC has not yet made this decision. With the support of the Independent Energy Producers, several generating facilities have asked the Commission to make this change, and the Commission should reach a decision in the first quarter of 2000.

New Resources Account

To date, 45 project developers have completed Milestone 2, which required them to file for the necessary permits to begin construction of their projects. Nine projects are on-line, seven of which received payments this quarter. Six of the seven projects receiving payments are landfill gas projects totaling nearly 23 MW of capacity. This quarter, they received \$575,444 in payments for more than 46 million kilowatt hours (kWh) of renewable generation. The seventh, a 16.5 MW wind project, received payments totaling \$82,442 for more than 10 million kWh of renewable generation. Two facilities, a 2.1 MW wind project and a 1.6 MW landfill gas project, are on-line but have not yet submitted invoices for payments. The Commission anticipates that payments to both facilities will begin in the first quarter of 2000.

Agrilectric, Inc. requested and the Commission granted cancellation of their funding award due to insurmountable difficulties in obtaining a secure fuel source for their proposed 7.8 MW rice-hull burning biomass project in Yolo County. The Commission will return the project's conditional funding award of \$3,939,938 to the Renewable Resources Trust Fund for reallocation, supplementing the \$450,049 that became available last quarter from the withdrawal of El Dorado County's 1 MW landfill gas project.

Next quarter, the Renewables Program Committee will begin a public process to examine reallocation options to determine how it can use these available funds, totaling almost \$4.4 million, most effectively to further the goals of the program and of SB 90.

Emerging Resources Account

The Buydown Program has received 610 reservation requests since it began on March 20, 1998, including 161 new requests during the fourth quarter of 1999. The Commission has currently encumbered approximately \$3.9 million in funds for projects with reservation requests, and the Controller has made about \$3.5 million in payments to completed projects. The amount of encumbered funds does not include most of the 161 new reservation requests received this quarter, which are still in various stages of the Buydown Program review process and have not yet received final approval for funding.

Other Emerging Resources Account activities during the fourth quarter of 1999 include a draft market research report on emerging renewable energy technologies, which is scheduled for completion in January 2000. The report includes the results of the residential and small commercial customer surveys completed in June and July 1999. The Commission designed the surveys to determine awareness of the different renewable technologies, the Buydown Program, and other related matters.

A monitoring program of photovoltaic and small wind systems, jointly funded by the Commission and the Department of Energy (DOE), began in November 1999. Phase I of the program will monitor 15 sites throughout California, gathering data on system performance. Funding from the Commission for this program is provided through a technical support contract with Regional Economic Research.

Customer Credit Subaccount

The market remained active in the fourth quarter of 1999. One new provider registered a new renewable energy product with the Customer Credit Subaccount, while another provider discontinued two products and exited the market. To date, a total of 21 providers have registered 35 renewable energy products with the Commission.

Distributions from the Customer Credit Subaccount total about \$19.98 million as of December 31, 1999. In the fourth quarter of 1999, providers received payments totaling \$8.27 million, an increase of more than \$3 million from payments made during the previous quarter. About \$1.35 million is currently being held as credit banked, and is included in the total calculation of funds distributed.

At its November 17, 1999 Business Meeting, the Commission adopted a change to the credit level, as well as other changes to the subaccount. At the start of the program, the Commission set the credit level, which is the cents per kilowatt hour rebate that is the basis for payments from the Customer Credit Subaccount, at the program's maximum amount of 1.5 cents/kWh in order to encourage development of

the market. However, the Commission recently decided it was necessary to lower the credit level to 1.25 cents/kWh to accommodate growth in the market and to ease the demand on Customer Credit Subaccount funds. The lowered credit level went into effect on December 1, 1999 and will continue until June 2000. In March 2000, the Commission will hold a public proceeding to decide whether the credit level should be re-set for the six-month block from July to December 2000.

As another change to the subaccount this quarter, the Commission adopted a technical modification in the method by which it will account for banked credits in calculating payments (i.e., in terms of kWh rather than dollars). Thus, the Commission will no longer report banked credits as a dollar value and expended funds will not reflect banked credits in subsequent quarterly reports.

Consumer Education Subaccount

In coordination with the Commission, the Renewable Energy Marketing Board continues to implement the green energy portion of the *Renewable Energy Consumer Education (RECE) Marketing Plan*. In November 1999, REMB targeted a green power public awareness campaign at the city of Oakland. The campaign, which REMB coordinated with the efforts of green power marketers, included the airing of a 30-second cable television spot, targeted direct mail, and a town hall meeting held on November 17, 1999. Consumer Education staff is currently planning a spring 2000 outreach campaign, which will be developed in conjunction with Earth Day 2000 events around the state.

In collaboration with television station KVIE Channel 6, Sacramento Municipal Utility District, and the County of Sacramento, the Commission developed a series of vignettes designed to raise awareness about green energy. The vignettes began airing December 20, 1999, and will continue for a three-month period. Consumer Education staff is conducting an evaluation of this activity.

Consumer Education staff will provide program administration for the first phase of the emerging renewable technologies portion of the *Renewable Energy Consumer Education (RECE) Marketing Plan*. However, because the market for emerging renewable technologies is not well known, the Commission has initiated market research to better understand consumers' perceptions of these technologies and successfully implement an effective consumer education campaign. Additionally, the Commission is developing a solicitation to obtain the technical resources and expertise to assist its staff in implementing the initial phase of the program. The Commission expects to complete both the market research and solicitation process by June 2000.

In summary, the Commission continues to make excellent progress in implementing the Renewables Funding Program. We expect program disbursements of the Renewable Resources Trust Fund to increase in the first quarter of 2000.